



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LEWIS COUNTY SHERIFF**

Calendar Year 1999

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable George M. Plummer, Lewis County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis County Fiscal Court

The enclosed report prepared by Stephens & Lawson, P.S.C., Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Lewis County, Kentucky, as of December 31, 1999.

We engaged Stephens & Lawson, P.S.C., to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, P.S.C., evaluated the Lewis County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LEWIS COUNTY SHERIFF**

Calendar Year 1999

EXECUTIVE SUMMARY

LEWIS COUNTY WILLIAM D. LEWIS, SHERIFF CALENDAR YEAR 1999 FEE AUDIT

The Lewis County Sheriff's 1999 fee audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). The audit revealed reportable internal control and compliance issues that are discussed in the comments and recommendations section. The Sheriff received operating revenue from various sources, including a state advance in the amount of \$36,591 to fund the operations of his office when cash flows were low. The state advancement was repaid prior to the end of the year. The Sheriff's office generated no excess fees for calendar year 1999.

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To the People of Kentucky

Honorable Paul E. Patton, Governor
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Independent Auditors' Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Lewis County, Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records for this calendar year, we were unable to form an opinion regarding the individual line item amounts of receipts and disbursements as reported in the accompanying statement of receipts, disbursements, and excess fees for the year ended December 31, 1999.

As describe in Note 1, the Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary to adjust the line item amounts on the financial statement, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff for the year ended December 31, 1999, in conformity with the basis of accounting described above.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discusses the following areas of noncompliance:

- Insufficient collateral to fully protect all money on deposit with local depository institution.
- The Sheriff did not publish the annual settlement in the local newspaper.
- Insufficient accounting records to verify the individual account balances shown on the financial statement.

To the People of Kentucky
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Members of the Lewis County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated August 30, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
August 30, 2000

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
~~STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES~~

Calendar Year 1999

~~Receipts~~

Federal Grant		\$	19,652
State Fees For Services:			
Finance and Administration Cabinet	\$	5,991	
Board of Elections		720	
Cabinet For Human Resources		<u>853</u>	7,564
Circuit Court Clerk -			
Fines and Fees Collected	\$	1,494	
Sheriff Security Services		8,039	
Towing and Storage		<u>1,260</u>	10,793
Fiscal Court			15,219
County Clerk - Delinquent Taxes			1,685
Commission on Taxes Collected			71,389
Fees Collected For Services -			
Auto Inspections	\$	6,825	
Accident and Police Reports		923	
Serving Papers		<u>6,735</u>	14,483
Other -			
Audit Adjustment	\$	1,708	
Carrying Concealed Deadly Weapon Permits		1,695	
KLEFPF		8,960	
Jr Sheriff/GED Program		2,350	
Miscellaneous		817	
Refunds		572	
Revenue Bank Share		<u>2,112</u>	18,214
Interest Earned			109
Borrowed Money:			
State Advancement			<u>36,591</u>
Total Receipts (Carried Forward)		\$	195,699

The accompanying notes are an integral part of the financial statement

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1999
(CONTINUED)

Total Receipts (Brought Forward)		\$ <u>195,699</u>
<u>Disbursements</u>		
Operating Disbursements -		
Personnel Services -		
Deputies' Gross Salaries	\$ 67,718	
Part-Time Salaries	3,644	
Training	<u>707</u>	\$ 72,069
Contracted Services -		
Advertising	\$ 225	
Secretarial Services	185	
Vehicle Maintenance and Repairs	<u>11,312</u>	11,722
Supplies and Materials -		
Office Materials and Supplies	\$ 4,223	
Uniforms	<u>4,606</u>	8,829
Auto Expense -		
Gasoline		5,334
Other Charges -		
Audit Adjustment	\$ 2,758	
Carrying Concealed Deadly Weapon Permits	975	
Dues	810	
Miscellaneous	1,103	
Postage	<u>680</u>	6,326
Capital Outlay		
Cameras		1,189
Debt Service -		
State Advancement		<u>36,591</u>
Total Disbursements		\$ <u>142,060</u>
Net Receipts		\$ 53,639
Less: Statutory Maximum		<u>53,639</u>
Excess Fees Due County for Calendar Year 1999		<u>\$ -</u>

The accompanying notes are an integral part of the financial statement

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Revenue and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1999
(CONTINUED)

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

NOTE 3 - DEPOSITS

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$104,283 of public funds uninsured and unsecured.

NOTE 4 – GRANT

The Sheriff received a COPS grant from the federal government to be used for salaries. During calendar year 1999 the Sheriff received \$23,724 and expended \$19,652 in accordance with the terms of the grant. As of December 31, 1999, \$4,072 of grant money was unexpended.

COMMENTS AND RECOMMENDATIONS

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
SCHEDULE OF COMMENTS AND RECOMMENDATIONS

CALENDAR YEAR 1999

Current Year Comments and Recommendations:

The Sheriff Should Require Depository Institutions To Pledge or Provide Sufficient Collateral to Protect Deposits.

On December 10, 1999, \$104,283 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

This matter will be addressed with the banker to ensure that all deposits are adequately secured.

The Sheriff Should Have Published the Annual Settlement in the Local Newspaper.

KRS 424.220 requires that a financial statement be published within sixty days after the close of the calendar year. We recommend the Sheriff's office comply with this statute.

Sheriff's Response:

I was not aware of this requirement at the time, however, this will be done in the future.

The Sheriff Should Maintain Accurate Receipts and Disbursements Ledgers.

During the course of our audit, we noted that the receipts and disbursements ledgers were not in agreement with the financial report or the total of receipts and disbursements per the bank statement. We had to make adjustments to the totals of the receipts and disbursements to make them agree to what went through the bank account. We recommend that a new bank account be opened each year to account for the activity in the fee account for that year only. We also recommend that a more formalized system of record keeping be implemented to help facilitate the preparation of accurate and timely financial information.

Sheriff's Response:

Steps have been taken to correct this problem in future.

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REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable George M. Plummer, County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis County Fiscal Court

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial
Statement Performed in Accordance With Government Auditing Standards

We have audited the Lewis County Sheriff as of December 31, 1999, and issued our report thereon dated August 30, 2000, our opinion was qualified due to inadequate account records as they relate to the individual line amounts shown on the financial statements. Except as discussed above, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lewis County Sheriff's financial statement as of December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lewis County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Due to inadequate accounting records, we were unable to satisfy ourselves as to the individual line item amounts shown on the financial statement.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable condition above is a material weaknesses.

Honorable George M. Plummer, County Judge/Executive
Honorable William D. Lewis, Carter County Sheriff
Members of the Carter County Fiscal Court
Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial
Statement Performed in Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release, is a matter of public record and its distribution is not limited.

Respectfully Submitted,

Stephens & Lawson,

P . S . C .

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
August 30, 2000

